

CLARKE COUNTY RESERVOIR COMMISSION  
OSCEOLA, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2020

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## Clarke County Reservoir Commission

### Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Brandon Patterson	Chair	Osceola Waterworks
Larry Keller	Vice-Chair	Clarke County
William Trickey	Secretary	City of Woodburn
Sue Wilder	Treasurer	Member at Large
Ty Wheeler	Member	City of Osceola
Dan McIntosh	Member	Southern Iowa Rural Water Association
Jeanie Cress	Member	City of Murray

Clarke County Reservoir Commission



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Auditor's Report

To the Board of Directors of  
Clarke County Reservoir Commission:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Clarke County Reservoir Commission (Commission), Osceola, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the Commission's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2021, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

February 2, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Clarke County Reservoir Commission (Commission) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

### **2020 FINANCIAL HIGHLIGHTS**

- Revenues of the Commission increased 182.0%, or approximately \$1,609,000, from fiscal year 2019 to fiscal year 2020. Capital grants, contributions and restricted interest increased approximately \$1,635,000 from fiscal year 2019 to fiscal year 2020.
- Program expenses of the Commission decreased 6.8%, or approximately \$24,000, from fiscal year 2019 to fiscal year 2020. Public works expenses decreased approximately \$30,000 and general government expenses increased approximately \$6,000 from fiscal year 2019 to fiscal year 2020.
- The Commission's net position increased 13.8%, or approximately \$2,158,000, from June 30, 2019 to June 30, 2020.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Commission's financial activities.

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Commission as a whole and present an overall view of the Commission's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Commission's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds.

## REPORTING THE COMMISSION'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the Commission's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in the Commission's net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Statement of Net Position and the Statement of Activities report governmental activities. Governmental activities include public works and the general government functions. Intergovernmental revenues finance most of these activities.

### *Fund Financial Statements*

The Commission has governmental funds. Governmental funds account for most of the Commission's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) a Special Revenue Fund. The governmental fund financial statements provide a detailed, short-term view of the Commission's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for governmental and business type activities.

Condensed Statement of Net Position			
	June 30,		Total Change
	2020	2019	June 30, 2019-2020
Current and other assets	\$ 881,628	1,073,451	-17.87%
Capital assets	19,254,327	16,772,275	14.80%
Total assets	20,135,955	17,845,726	12.83%
Long-term liabilities	1,000,000	1,000,000	0.00%
Other liabilities	1,319,059	1,187,276	11.10%
Total liabilities	2,319,059	2,187,276	6.02%
Net position:			
Net investment in capital assets	19,254,327	15,772,275	22.08%
Unrestricted	(1,437,431)	(113,825)	-1162.84%
Total net position	\$ 17,816,896	15,658,450	13.78%

Net position of governmental activities increased approximately \$2,158,000, or 13.8%, over the fiscal year 2019 amount. The largest portion of the Commission's net position is invested in capital assets (e.g., land, infrastructure), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately (\$1,437,000) at the end of this year.

<b>Changes in Net Position</b>			
	2020	2019	Total Change 2019-2020
Revenues:			
Program revenues:			
Operating grants, contributions and restricted interest	\$ 101,953	128,880	-20.89%
Capital grants, contributions and restricted interest	2,385,540	750,201	217.99%
General revenues:			
Unrestricted investment earnings	5,429	4,919	10.37%
Total revenues	2,492,922	884,000	182.00%
Program expenses:			
Public works	279,245	309,163	-9.68%
General government	55,231	49,706	11.12%
Total expenses	334,476	358,869	-6.80%
Change in net position	2,158,446	525,131	311.03%
Net position beginning of year	15,658,450	15,133,319	3.47%
Net position end of year	\$ 17,816,896	15,658,450	13.78%

The Commission's net position of governmental activities increased approximately \$2,158,000 during the year. Revenues for governmental activities increased approximately \$1,609,000 over the prior year, with capital grants, contributions and restricted interest increasing approximately \$1,635,000 due to a sizeable donation received from the City of Osceola. This would primarily account for the increase in revenues from fiscal year 2020 compared to fiscal year 2019.

The cost of all governmental activities this year was approximately \$335,000 compared to approximately \$359,000 last year.

## INDIVIDUAL MAJOR FUND ANALYSIS

### Governmental Fund Highlights

As the Commission completed the year, its governmental funds reported a combined fund balance of (\$720,892), which is \$607,067 less than the (\$113,825) total fund balance at June 30, 2019. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

- The General Fund showed a modest increase in fund balance of \$3,558 from the prior year to \$100,927. Revenues increased approximately 5% over the prior year to \$58,789 and expenditures increased approximately 11% over the prior year to \$55,231.

- The Special Revenue, Reservoir Project Fund accounts for the acquisition of a reservoir facility. This fund ended fiscal year 2020 with a (\$821,819) balance compared to the prior year ending balance of (\$211,194). This decrease is due to the Commission purchasing several parcels of land in fiscal year 2020.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Commission's capital assets include land and construction in progress. Capital assets totaled \$19,254,327 (net of accumulated depreciation) at June 30, 2020. See Note 3 to the financial statements for more information about the Commission's capital assets.

The major capital outlays during the year included multiple purchases of land and permanent easements for the construction of the reservoir project.

Construction in progress at June 30, 2020 consists of costs incurred in relation to land not purchased by June 30, 2020.

### **Long-Term Debt**

At June 30, 2020, the Commission had \$1,000,000 in contracts payable.

## **ECONOMIC FACTORS BEARING ON THE COMMISSION'S FUTURE**

The Commission continues to buy properties from willing sellers. However, we are also considering alternatives to how to work with property owners who are not willing sellers to the Commission. Until this is resolved, the Commission will not be able to proceed with construction of the reservoir project.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Commission's finances and operating activities. If you have any questions or require additional information, please contact Brandon Patterson, Board Chairperson, P.O. Box 343, Creston, Iowa 50801.

## Basic Financial Statements

## Clarke County Reservoir Commission

Exhibit A

## Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 545,417
Due from other governments	333,979
Prepaid expenses	2,232
Capital assets (net of accumulated depreciation)	<u>19,254,327</u>
<b>Total assets</b>	<u>20,135,955</u>
<b>Liabilities</b>	
Accounts payable	242,516
Accrued expenses	32,990
Unearned revenue	1,043,553
Long-term liabilities:	
Portion due or payable within one year	
Contract payable	<u>1,000,000</u>
<b>Total liabilities</b>	<u>2,319,059</u>
<b>Net Position</b>	
Net investment in capital assets	19,254,327
Unrestricted	<u>(1,437,431)</u>
<b>Total net position</b>	<u><u>\$ 17,816,896</u></u>

See notes to financial statements.

## Clarke County Reservoir Commission

Exhibit B

## Statement of Activities

Year ended June 30, 2020

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities
<b>Functions / Programs:</b>					
Governmental activities:					
Public works	\$ 279,245	-	48,593	2,385,540	2,154,888
General government	55,231	-	53,360	-	(1,871)
<b>Total</b>	<b>\$ 334,476</b>	<b>-</b>	<b>101,953</b>	<b>2,385,540</b>	<b>2,153,017</b>
<b>General Revenues:</b>					
Unrestricted investment earnings					\$ 5,429
Total general revenues					5,429
Change in net position					2,158,446
Net position beginning of year					15,658,450
Net position end of year					\$ 17,816,896

See notes to financial statements.

## Clarke County Reservoir Commission

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2020

	Special Revenue		
	General	Reservoir Project	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 98,695	446,722	545,417
Due from other governments	-	333,979	333,979
Prepaid expenses	2,232	-	2,232
<b>Total assets</b>	<b>\$ 100,927</b>	<b>780,701</b>	<b>881,628</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	242,516	242,516
Accrued expenses	-	32,990	32,990
Unearned revenue	-	1,043,553	1,043,553
Deferred inflows of resources:			
Unavailable revenues:			
Other	-	283,461	283,461
Total liabilities	-	1,602,520	1,602,520
Fund balances:			
Nonspendable:			
Prepaid expenses	2,232	-	2,232
Unassigned	98,695	(821,819)	(723,124)
Total fund balances	100,927	(821,819)	(720,892)
<b>Total liabilities and fund balances</b>	<b>\$ 100,927</b>	<b>780,701</b>	<b>881,628</b>

See notes to financial statements.

Clarke County Reservoir Commission  
Reconciliation of the Balance Sheet -  
Governmental Funds to the Statement of Net Position

Exhibit D

June 30, 2020

<b>Total fund balances of governmental funds (page 15)</b>	<b>\$ (720,892)</b>
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***Amounts reported for governmental activities in the Statement of Net Position are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	19,254,327
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Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	283,461
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Contracts payable do not require the use of current financial resources.	<u>(1,000,000)</u>
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<b>Net position of governmental activities (page 13)</b>	<b><u><u>\$ 17,816,896</u></u></b>
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See notes to financial statements.



## Clarke County Reservoir Commission

Exhibit E

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2020

	Special Revenue		
	General	Reservoir Project	Total
Revenues:			
Use of money and property:			
Interest income	\$ 5,429	-	5,429
Lease income	-	48,593	48,593
	5,429	48,593	54,022
Intergovernmental:			
Local option sales tax from Cities	-	163,919	163,919
	-	163,919	163,919
Miscellaneous:			
Contribution from City of Osceola	-	1,938,160	1,938,160
Sponsor contribution	53,360	-	53,360
	53,360	1,938,160	1,991,520
Total revenues	58,789	2,150,672	2,209,461
Expenditures:			
Operating:			
Public works:			
Miscellaneous	-	3,315	3,315
Land mangement	-	8,378	8,378
Property tax	-	32,042	32,042
Legal fees	-	16,135	16,135
Service provider	-	219,375	219,375
Capital outlay	-	2,482,052	2,482,052
	-	2,761,297	2,761,297
General government:			
Advertising	968	-	968
Banking	1,839	-	1,839
Insurance	2,662	-	2,662
Postage	567	-	567
Professional fees	49,195	-	49,195
	55,231	-	55,231
Total expenditures	55,231	2,761,297	2,816,528
Change in fund balances	3,558	(610,625)	(607,067)
Fund balances beginning of year	97,369	(211,194)	(113,825)
Fund balances end of year	\$ 100,927	(821,819)	(720,892)

See notes to financial statements.

Clarke County Reservoir Commission

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances -  
Governmental Funds to the Statement of Activities

Year ended June 30, 2020

**Net change in fund balances - total governmental funds (page 17)** **\$ (607,067)**

*Amounts reported for governmental activities in the Statement of  
Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, these costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures were \$2,482,052 and depreciation expense was \$0.

2,482,052

Because some revenues will not be collected for several months after the year end, they are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds.

283,461

**Change in net position of governmental activities (page 14)**

\$ 2,158,446

See notes to financial statements.

# Clarke County Reservoir Commission

## Notes to Financial Statements

June 30, 2020

### Note 1. Summary of Significant Accounting Policies

The Clarke County Reservoir Commission (Commission) was created pursuant to Chapter 28E of the Iowa Code. The Commission is a voluntary organization of the following entities located in Clarke County, Iowa: Clarke County, City of Murray, City of Osceola, Osceola Municipal Waterworks, City of Woodburn and the Southern Iowa Rural Water Association. The Board members of the Commission consist of one representative of the above six entities, plus one person jointly selected by the above six members, to total seven board members of the Commission.

The purposes of the Commission is to (a) control the locating, planning, design and construction of a new reservoir or other water source for its members, (b) cooperate with and pursue the support of all interested or affected public and private agencies and individuals, on a Federal, State, or Local basis, (c) pursue all possible funding sources, both public and private, for the design, development, construction and maintenance of a reservoir or other water source, and (d) provide for the sharing of all expenses incurred as a result of decisions made and action taken by the Board in the pursuance of the purposes set forth in the 28E agreement. In addition, once the reservoir is complete, the Commission will be responsible for providing the management and protection of the water supply.

To provide funds to the Commission in order to carry out the activities of the Commission, the Commission receives monies from bank interest, member contributions, local option sales taxes from the Cities of Osceola, Murray and Woodburn, and from a gaming wager tax from the City of Osceola. The Commission has no employees; however, the Commission has contracted with Southern Iowa Resource Conservation and Development Area, Inc. to provide coordination, administration, and project management services for the Commission.

The financial statements of the Commission have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, the Commission has included all funds, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the Commission. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are primarily supported by intergovernmental revenues.

The Statement of Net Position presents the Commission's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net position* results when constraints placed on net position are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital improvements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major governmental funds are reported as separate columns in the fund financial statements.

The Commission reports the following major governmental funds:

The General Fund is the general operating fund of the Commission. All receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

The Special Revenue, Reservoir Project Fund is used to account for intergovernmental revenues which will be used in the acquisition and construction of the reservoir.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (local option sales tax from Cities) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Commission.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Note 1. Summary of Significant Accounting Policies (continued)

Under terms of the grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Commission's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most Commission funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Due from Other Governments – Due from other governments represents amounts due from the Cities in the County. Management believes all amounts due are collectible from the Cities.

Capital Assets - Capital assets, which include land and construction-in-progress, are reported in the applicable governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair not adding to the value of the asset or materially extending the useful lives are not capitalized. Capital assets are defined by the Commission as assets with initial, individual cost in excess of \$1,000 and estimated useful lives in excess of two years.

Revenues Collected in Advance – Governmental funds and the governmental activities defer revenue recognition in connection with resources that have been received but not yet earned as revenues collected in advance. Revenues collected in advance consist of rent paid in advance, and water rights paid in advance.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the fund financial statements consist of other receivables due not collected within sixty days after year end.

Fund Balance – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Unassigned – All amounts not included in the preceding classifications.

Note 1. Summary of Significant Accounting Policies (continued)

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Cash and Cash Equivalents

The Commission's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage Commission.

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest rate risk – The Commission's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Commission.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2020 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land and permanent easements	\$ 16,509,338	685,666	-	17,195,004
Construction in progress	262,937	1,818,205	(21,819)	2,059,323
Total capital assets not being depreciated	<u>\$ 16,772,275</u>	<u>2,503,871</u>	<u>(21,819)</u>	<u>19,254,327</u>

Depreciation expense for the year totaled \$0. There is no accumulated depreciation on the capital assets as of June 30, 2020, since the assets have not been placed in service as of June 30, 2020.

Note 4. Long-Term Liability

The Commission has a contract payable with an individual for the payment of \$1,000,000. This agreement was entered into in fiscal year 2016. It is anticipated the amount owed in relation to this agreement will be paid in fiscal year 2021.

Note 5. Lease Commitments

The Commission leases real estate to tenants under noncancelable operating leases with terms of one year. As of June 30, 2020, only one lease was still in effect. Lease revenue received by the Commission during the year ended June 30, 2020 was \$48,593.

Note 6. Risk Management

The Commission is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Commission assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Deficit Fund Balances

In the Statement of Net Position, the Commission had a deficit unrestricted net position in its Governmental Activities of \$1,437,431 as of June 30, 2020. The Special Revenue, Reservoir Project Fund had a deficit balance of \$821,819 as of June 30, 2020. These deficits were the result of significant unearned revenue as of June 30, 2020.

Note 8. Commitments

Based on signed contracts, as of June 30, 2020, it appears that the Commission owes \$296,294 to vendors for right-of-way services, for project administration services and for landowner moving reimbursement.

The Commission has entered into various agreements for legal services, appraisal services, surveying services, and abstracting services with various vendors. While the agreements document the cost of the various services, there appears to be no minimum amounts required to be paid to the vendors providing the services. In the future, it is anticipated the Commission will pay these vendors based on actual amount of work performed from invoices provided to the Commission.

Note 9. Monetary Commitments

In a prior fiscal year, the Osceola Municipal Waterworks (OMWW) and the Southern Iowa Rural Water Association (SIRWA) each approved up to a \$2,000,000 commitment to support the successful development of the Clarke County Reservoir Project.

In fiscal year 2018, the OMWW purchased real estate for a sales price of \$600,000 from the Commission. The Commission considers this purchase as part of the up to \$2,000,000 commitment to the Commission.

In addition, in fiscal year 2018, the OMWW and SIRWA paid \$221,000 and \$821,000, respectively, to the Commission as part of the up to \$2,000,000 commitment to the Commission. The Commission intends to develop an agreement which will allow OMWW and SIRWA specified water rights upon completion of the project. The OMWW and SIRWA cash payments of \$1,042,000 toward this project will be amortized over the length of the water rights agreement once it has been finalized.

Note 10. Contingencies

The Commission's Attorney reported that as of June 30, 2020, various lawsuits were on file against the Commission. However, the probability and amount of loss, if any, is undeterminable.

The Commission was a party to a condemnation award for real estate. The condemnation amount was for approximately \$622,000. The recipient of this condemnation award believes the value of the real estate is worth more than the condemnation award amount and is appealing the amount of the award to District Court. As of audit report date, a jury trial has been scheduled in February 2021 to resolve this issue. The outcome of this case is unknown.

Note 11. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Commission, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the Commission. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Commission's operations and finances.

Note 12. Subsequent Events

The Commission has evaluated subsequent events through February 2, 2021, which is the date the financial statements were available to be issued.

The Commission entered into an administrative service agreement with Southern Iowa Resource Conservation and Development Area, Inc. (SIRCD) in December 2020, payable quarterly. This agreement is for calendar year 2021 and is for \$70,000. SIRCD is to provide administrative services for the Commission. However, this agreement may be terminated by either party by giving 30 days written notice.

The Commission entered into an agreement with Conservation Professionals International, LLC (CPI) in December 2020. This agreement is for calendar year 2021 and is for \$110,000, payable quarterly. CPI is to provide land management services for the Commission.



## Supplementary Information

## Clarke County Reservoir Commission

Schedule 1

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis					
	2020	2019	2018	2017	2016	2015
Revenues:						
Use of money and property	\$ 54,022	82,979	86,793	87,206	38,312	35,022
Intergovernmental	163,919	750,201	1,004,821	1,079,055	3,821,362	1,284,404
Miscellaneous	1,991,520	50,820	46,200	42,000	41,000	35,000
Total	\$ 2,209,461	884,000	1,137,814	1,208,261	3,900,674	1,354,426
Expenditures:						
Public works	\$ 2,761,297	1,046,406	3,057,577	1,661,327	10,929,355	1,198,969
General government	55,231	49,706	46,778	44,329	41,169	58,779
Total	\$ 2,816,528	1,096,112	3,104,355	1,705,656	10,970,524	1,257,748

See accompanying independent auditor's report.



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Directors of  
Clarke County Reservoir Commission:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Clarke County Reservoir Commission (Commission) as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items I-A-20, I-B-20 and I-C-20 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The Commission's Responses to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

February 2, 2021

Clarke County Reservoir Commission

Schedule of Findings

Year Ended June 30, 2020

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**I-A-20 Segregation of Duties**

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Clarke County Reservoir Commission (Commission) financial statements.

Condition – Generally, one individual has control over each of the following areas for which minimal or no compensating controls exist:

- (1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Accounting system – performing all general accounting functions and having custody of Commission assets.

Cause – The Commission has a limited number of individuals and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Commission's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Commission should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response – The Commission will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

**I-B-20 Preparation of Financial Statements**

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Clarke County Reservoir Commission

Schedule of Findings

Year Ended June 30, 2020

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Commission. The outside party does not have the constant contact with ongoing financial transactions.

Recommendation - We recommend that Commission officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with generally accepted accounting principles.

Conclusion – Response acknowledged.

I-C-20 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Commission's financial statements.

Condition – Material amounts of receivables, liabilities and capital asset additions were not properly recorded on the accounting system.

Cause – Commission policies do not require and procedures have not been established to provide for an independent review of the financial statements and transactions to ensure these amounts are materially accurate.

Effect – Lack of Commission policies and procedures resulted in personnel not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Commission's financial statements were necessary.

Recommendation – The Commission should establish procedures to ensure all transactions are properly recorded and reported in the Commission's financial statements.

Response – We will implement this recommendation to the best of our ability.

Conclusion – Response acknowledged.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

Clarke County Reservoir Commission

Schedule of Findings

Year Ended June 30, 2020

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-20 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-B-20 Travel Expense – No expenditures of Clarke County Reservoir Commission (Commission) money for travel expenses of spouses of Commission officials or employees were noted.
- II-C-20 Commission Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.
- II-D-20 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Commission’s investment policy were noted.
- II-E-20 Restricted Donor Activity – No transactions were noted between the Commission, Commission officials, Commission employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-F-20 Vendor Compliance – For a vendor used by the Commission, it appears the Commission is paying the vendor based on an hourly rate. However, the agreement with the vendor states the Commission will pay the vendor a flat fee based on a per parcel or case rate. While the Commission does receive detail from the vendor which documents the parcel or case identifier which relate to the services performed, the Commission does not perform any procedures to ensure compliance with agreement with the vendor.

Recommendation – The Commission should ensure the terms of the agreements with the vendors are followed, for both prior amounts paid and future amounts to be paid to vendor.

Response – We will consult with our attorney in relation to this.

Conclusion – Response acknowledged.

- II-G-20 Financial Condition – As noted on the Statement of Net Position, the Governmental Activities had a deficit unrestricted net position of \$1,437,431 as of June 30, 2020. The Special Revenue, Reservoir Project Fund had a deficit balance of \$821,819 as of June 30, 2020.

Recommendation – The Commission should continue to investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Response – We will implement this recommendation. This issue will be taken care of when all of the Commission real estate is purchased and fully paid for.

Conclusion – Response acknowledged.

- II-H-20 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Commission to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. For some bank accounts, the Commission does not receive an image of the back of each cancelled check.

Recommendation – The Commission should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Clarke County Reservoir Commission

Schedule of Findings

Year Ended June 30, 2020

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-1-20 Sales Tax – We identified an instance in which the Commission paid sales taxes to the State of Iowa for purchases of materials. As a government entity, the Commission is exempt from paying sales taxes to the State of Iowa for purchases of materials.

Recommendation – The Commission should implement procedures to ensure sales taxes are not paid to the State of Iowa for purchases of materials.

Response – We will implement this recommendation, as the sales tax payment was an oversight on our part.

Conclusion – Response acknowledged.